

**REPORT OF THE AUDIT OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT – 2006 TAXES**

**For The Period
May 6, 2006 Through April 30, 2007**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT ~ 2006 TAXES

For The Period May 6, 2006 Through April 30, 2007

Romaine & Associates, PLLC was engaged to complete the Carlisle County Sheriff's Settlement – 2006 Taxes for the period May 6, 2006 through April 30, 2007. As a result of this engagement, we have issued a disclaimer of opinion on the financial statement.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Properly Safeguard All Financial Records
- The Sheriff's Office Should Report Franchise Tax Collections By The Tenth Of Each Month
- The Sheriff's Office Should Deposit Funds Intact On A Daily Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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Krista Romaine, CPA, Member
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CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Greg Terry, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

We were engaged to audit the financial activity contained in the Carlisle County Sheriff's Settlement – 2006 Taxes for the period May 6, 2006 through April 30, 2007. This tax settlement is the responsibility of the Carlisle County Sheriff.

The financial activity contained in the tax settlement is intended to present actual receipts and disbursements of the Carlisle County Sheriff on the cash basis of accounting. Actual receipts and disbursements are recognized when received or paid rather than when earned or incurred. The presentation of the financial activity contained in the tax settlement is not intended to be a presentation in conformity with generally accepted accounting principles.

On December 26, 2007 the Carlisle County Sheriff's Office was destroyed by fire. The Carlisle County Sheriff did not properly safeguard the financial records. Therefore we were unable to verify the receipts and disbursements and validity of the transactions for the year ended December 31, 2006. Based on the scope limitation, we were unable to apply procedures to determine whether the financial report is presented fairly in conformity with the cash basis of accounting and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Since the Carlisle County Sheriff did not properly safeguard the financial records we were unable to apply other auditing procedures to satisfy ourselves as to the receipts and disbursements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial report.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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The Honorable Greg Terry, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Properly Safeguard All Financial Records
- The Sheriff's Office Should Report Franchise Tax Collections By The Tenth Of Each Month
- The Sheriff's Office Should Deposit Funds Intact On A Daily Basis

Respectfully submitted,

Romaine & Associates, PLLC

August 14, 2008

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Commonwealth Of Kentucky
REVENUE CABINET
8/28/2007

SHERIFF'S
PROPERTY TAX ACCOUNT STATEMENT

County: Carlisle
Sheriff: Steve McChristian
Date: August 28, 2007
Settlement made by: Shea McWhorter

Charges:	Real Estate 0.128	Real Estate 0.015	Tangible 0.45	Tangible 0.15	Tangible 0.05	Tangible 0.015	Tangible 0.001	Intangible 0.25	Intangible 0.015	Intangible 0.001	Total Charges
Original Cert (62A385)	153,159.57		22,489.54	495.41	2,163.15						178,307.6
Rec Orders (62A372)	37.63										37.6
Other charges	114.51										114.5
Penalty & Interest	1,709.08		525.37	48.31	4.31						2,287.0
Total Charges	155,020.79		23,014.91	543.72	2,167.46						180,746.8
Less:											Total Credits
Delinquents (62A359)	4,096.38										4,096.3
Delinquents (62A362)	4,323.98										4,323.9
Rec Orders (62A372)	985.12		2,798.06								3,783.1
Accounts	1,855.37		213.59		10.60						2,079.5
Total Credits	11,260.85		3,011.65		10.60						14,283.1

Local Collections:	
County	
School	
TOTAL	

Worksheet For Computing Sheriff's Commission		
	Tax Amount	Commission
Total state collections (line 5)	166,463.78	
10% of first \$5,000 collected	5,000.00	500.00
Line 5 minus \$5,000	161,463.78	6,862.21
Current Yr Refunds (if in '372 totals)		
Total Current Year Commissions		7,362.21
Credit for HB 418		
Total Commissions		7,362.21

3. Total state property tax collections (Total charges minus total credits)	166,463.78
4. Credit for bank and trust share tax	
5. Total	166,463.78
6. Total commissions (Transferred from worksheet for computing commission)	7,362.21
7. Amount of state tax due (line 5 minus line 6)	159,101.57
8. Amount of tax previously remitted	162,355.21
9. Net amount of tax due state (line 7 minus line 8)	-3,253.64
10. Prior and current year refunds	
11. Total (line 9 minus line 10)	-3,253.64
12. Penalty (10% of line 11) (KRS 46.990)	
13. Penalty and interest late reports (KRS 134.309(3))	
14. Amount due to complete settlement (line 11 plus lines 12 and 13)	-3,253.64

Assessment/Tax Worksheet	Real Estate 0.128	Real Estate 0.015	Tangible 0.45	Tangible 0.15	Tangible 0.05	Tangible 0.015	Tangible 0.001	Intangible 0.25	Intangible 0.015	Intangible 0.001	Number of Exon/ Del	State Tax Collection Percentage Real Estate 97.31 Tangible 100.00 Intangible #DIV/0!
12 Increase Assmt	29,400											
12 Increase Tax	37.63											
19 Delinq Assmt	3,200,297											
19 Delinq Tax	4,096.38											
12 Delinq Assmt	3,378,107											
12 Delinquent Tax	4,323.98											
12 Decrease Assmt	769,625		621,791									
12 Decrease Tax	985.12		2,798.06									

CARLISLE COUNTY SHERIFF'S		Settlement 2006								
		STATE	COUNTY	SCHOOL	AMBULANCE	HEALTH	EXTENSION	SOIL & WATER	TIMBER	WATERSHED
CHARGES:										
Real Estate			174,698.62	466,656.15	83,759.45	38,288.75	67,008.66	21,539.08	880.02	8,663.50
Tangible			12,712.99	33,959.35	6,095.28	2,786.44	7,053.16	0.00	0.00	0.00
Exon Increases - Real Estate	372		42.92	114.66	20.58	9.40	16.45	5.29	0.00	5.29
Exon Increases - Tangible	372						0.00	0.00	0.00	0.00
Penalties			1,550.44	4,141.59	743.36	339.82	623.92	170.12	1.22	17.73
Miscellaneous Charges	Clay taxes		130.60	348.88	62.63	28.64	50.10	16.09	0.00	0.00
TOTAL CHARGES			189,135.57	505,220.63	90,681.30	41,453.05	74,752.29	21,730.58	881.24	8,686.52
CREDITS:										
Exon Decreases - Real Estate			1,123.65	3,001.53	538.73	246.28	430.99	138.53	1.53	
Exon Decreases - Tangible			907.81	2,424.98	435.25	198.97	348.20	111.92	0.00	18.65
Delinquents (62A359) - Real Est			4,672.43	12,481.15	2,240.20	1,024.09	1,792.16	576.05	0.00	96.00
Delinquents (62A362)			4,932.03	13,174.61	2,364.67	1,080.99	1,891.74	608.05	0.02	1.59
Discounts			2,214.14	5,914.40	1,065.26	1,063.32	865.72	262.14	13.78	134.29
Miscellaneous Credits	Clay taxes		8.04	328.24	58.93	26.88	47.02	15.10	0.00	0.00
TOTAL CREDITS			13,858.10	37,324.91	6,703.04	3,640.53	5,375.83	1,711.79	15.33	250.53
AMOUNT TO BE COLLECTED (Charges less credits)			175,277.47	467,895.72	83,978.26	37,812.52	69,376.46	20,018.79	865.91	8,435.99
Less Commissions			7,931.05	19,216.43	3,451.57	3,476.00	3,018.25	880.81	36.58	361.55
Amount Due To Taxing District			167,346.42	448,679.29	80,526.69	34,336.52	66,358.21	19,137.98	829.33	8,074.44
Less Amount Previously Remitted			171,801.30	480,758.17	82,723.63	37,716.83	68,941.66	19,814.90	822.82	8,145.48
Less Current & Prior Year Refunds			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AMOUNT DUE TO COMPLETE SETTLEMENT			-4,454.88		-2,196.94	-3,380.31	-2,583.45	-676.92	6.51	71.04

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Greg Terry, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We were engaged to audit the financial activity contained in the Carlisle County Sheriff's Settlement – 2006 Taxes for the period May 6, 2006 through April 30, 2007, and have issued our report thereon dated August 14, 2008, wherein we disclaimed an opinion on the financial report because the Sheriff failed to adequately safe guard the financial records.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carlisle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Carlisle County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Deposit Funds Intact On A Daily Basis

Report on Internal Control Over Financial Reporting And
On Compliance And Other Matters Based on An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiencies as described above to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Carlisle County Sheriff's Settlement – 2006 Taxes for the period May 6, 2006 through April 30, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under Government Auditing Standards.

- The Sheriff's Office Should Report Franchise Tax Collections By The Tenth Of Each Month
- The Sheriff's Office Should Properly Safeguard All Financial Records
From Loss

This report is intended solely for the information and use of management, the Carlisle County Fiscal Court, and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Romaine & Associates, PLLC

August 14, 2008

COMMENTS AND RECOMMENDATIONS

CARLISLE COUNTY
STEVE MCCHRISTIAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 6, 2006 through April 30, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. The Sheriff's bookkeeper collects money, opens mail, prepares deposits, prepares daily collection reports, and reconciles bank accounts. The Sheriff's bookkeeper prepares monthly reports, writes and signs checks for all taxing districts, then mails checks, and reports to the districts. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, the daily checkout sheet, and the receipts ledger for that day's business.
- The Sheriff should periodically compare net taxes collect per the monthly tax distribution reports to the receipt ledger for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax distribution report.
- The Sheriff should periodically compare payments to taxing districts to checks. The Sheriff could document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this comparison by initialing and dating the bank reconciliation and the balance in the checkbook.
- The Sheriff should require dual signatures on all disbursement checks.

Sheriff's Response: No Response

The Sheriff Should Deposit Funds Intact On A Daily Basis

Audit procedures revealed that the Sheriff was not depositing tax collections on a daily basis. Furthermore, we noted that tax collections for some days were being held up to more than three weeks before being deposited. Technical Audit Bulletin 93-002, Section 3 and Section 4, requires the Sheriff to reconcile daily collections to daily deposits and to deposit funds intact on a daily basis. We recommend the Sheriff reconcile the daily tax collection reports to the funds collected and deposit these tax collections into the bank account daily.

Sheriff's Response: No Response

CARLISLE COUNTY
STEVE MCCHRISTIAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 6, 2006 through April 30, 2007
(Continued)

STATE LAWS AND REGULATIONS:

The Sheriff Should Report Franchise Tax Collections By the Tenth Of Each Month

Audit procedures performed on franchise taxes revealed that the Sheriff was not reporting on a monthly basis the franchise taxes collected. KRS 134.300 (1) states "The sheriff shall, by the tenth day of each month, or more often if required by the county judge/executive to prevent the sheriff from having funds in his possession in excess of the amount of his bond, report under oath to the county judge/executive the amount of state and county taxes he has collected during the month proceeding..." KRS 134.300 (2) states "At the time of making the report to the county judge/executive, the sheriff shall pay to the county treasurer, or other officer designated by the fiscal court, all funds belonging to the county that were collected by him during the period covered in the report." We recommend the Sheriff comply with KRS 134.300 by reporting each month's franchise taxes by the tenth of the following month and also by making proper tax distributions at that time.

Sheriff's Response: No Response

The Sheriff's Office Should Properly Safeguard All Financial Records From Loss

The Sheriff's office had inadequate controls over the safeguarding of financial records. On December 26, 2007 an arson fire destroyed all financial records pertaining to the Sheriff's Office. The financial records were not in a fire proof area or room nor were any financial backup's located offsite. Due to this scope limitation, we were unable to express an unqualified opinion on the Sheriff's financial statement.

- The Sheriff should establish controls to achieve the objective of safeguarding the financial records. All financial records should be stored in a fire resistant area or room in order to protect these assets from a loss. An electronic data backup should be maintained off site in order to protect information from this type of loss.

Sheriff's Response: No Response